

ASK SLIM

I'll share a quick history of my trading career and let you decide. I've been a trader for 31 years. My trading career began in 1974, at 24 years of age, on the Chicago Board Options Exchange (CBOE). Over the 17 years I was a member of the CBOE, I traded in nearly every pit on that floor. Much of that time was spent in the chaotic OEX pit. Over the years I was a member of the Chicago Mercantile Exchange (CME) and the Chicago Board of Trade (CBOT). I have traded "off the floor" since 1984.

In this column, I will answer your questions on the technical and psychological aspects of trading and trading methodologies. Oh, and the next question would be, why the name "Slim?" My badge on the CBOE was "SLM" (Steven L. Miller). Other traders gave me that nickname on my first day of trading, back in 1974. So, ask Slim!



Dear Slim,

Regarding trading the markets, futures, options, et al: why are some people profitable while others lose everything? All of us have access to the same information, the same technical tools and studies. All of us know the rules about money management, stop losses, etc. Yet, some make money while others do not. What is the missing element? Without waxing philosophical or mystical (unless, of course, you believe that one of those paths does lead to the answer), what makes the difference?

—Anonymous, via e-mail

Dear Reader,

Every trader is a unique individual, with different life experiences, personalities, needs and aspirations. The sum of those elements helps to create a consciousness which each person uses to guide their lives. This "paradigm" comes with its own set of filters. The information that best helps to promote their desired life's direction passes through the filters and is reacted to and stored as knowledge. The information that is not congruent to their path is blocked by the filters and does not get through. The following is an example of this concept.

One trader came to me quite disgusted after more than a year of trading index futures. This was a highly disciplined individual. He had come from a home with two parents who had achieved high levels in the corporate world and an older sister who was a high-powered attorney. He was an MBA. Growing up, he had lived a very structured life, with high expectations of achievement and "a time and place for everything."

He approached trading in much the same way, building vast knowledge of the markets, studying systems and maintaining strict discipline. So what was wrong? What came to light was that what he had learned throughout life – structure and strict discipline – was exactly what was hurting him in his trading career. His system was mechanical. Each trade was the same size. Every time he opened a trade, he put in a stop order exactly the same number of points from where he opened the trade. The results were a win-loss percentage that was about 50/50 and a lot of confusion and stress.

The problem is that the markets are *not* structured. The markets are constantly changing, if not often chaotic. This meant shifting the paradigm that he had brought to trading. He had to re-learn some of the lessons that had served him well throughout his life. Once he realized that it was "OK" to give up some of that structure by varying his trade size and loss rules based on the market conditions, his results improved significantly.

So, you see, although the same information is available to all traders, not all traders process it the same way. Often we have to discover the parts of ourselves that keep us from our greatest successes.

Dear Slim,

I was reading an issue of SFO about the TRIX indicator. I was wondering if there are any sites on the web that offer charts on this indicator.

—Larry P., via e-mail

Dear Larry,

The TRIX is an oscillator made up of a smoothed triple exponential moving average. Traders use it to identify market momentum as well as overbought and oversold conditions. Below is a daily "Spyder" chart (S&P 500 Depository Receipts) with the TRIX indicator. Notice how tops in the TRIX index preceded downturns in the market in February and in April.

Many charting software packages now offer this indicator. This chart is provided as a courtesy of Prophet.net, which is a great resource for this indicator and all of your charting needs.

Dear Slim,

Enjoy your comments, very thoughtful. I am a full-time options trader and developed a scalable trading system for index options, mainly the QQQ, using a conservative hedging strategy

that generates a return of about two percent or more a month. For a model of this type, I need lots of liquidity to make it worthwhile.

Should I approach a prop trading firm for increasing my liquidity and, if so, where can I find a list of prop firms that allow options trading?

Alternatively, if I want to make it a business model and sell money management services to retail clients for accounts of \$50K and above (non-IRA), who could guide me to structuring the business from a legal and compliance point of view? Is it a viable idea and how would I go about marketing it?

—Sid, via e-mail

Dear Sid,

I hear three parts to your question.

1) **Is two percent a month a good enough return?** Absolutely it is! In fact, large institutions would prefer investing in a low-volatility fund that has consistent earnings rather than in one that makes 100 percent one year and gets killed in the next year.

2) **Is a proprietary trading firm a good place to execute this plan for added leverage? And are there prop firms that allow option trading?** Yes, a prop shop will give you great leverage on the stock

side, and most do allow option trading. However, prop shops can do little to improve margins on options. Go to my site at www.askslim.com, and look under Resources>Stocks>Propriety Firms. I suggest Echo Trading as a good place to start your discussions.

3) **Is it a viable idea to do this within the structure of a fund, and how would I market it?** A fund is the best way, in my judgment. You'll need to seed the fund from within your circle of contacts and with your own money. It's not legal to advertise until you have audited results. Once you have a good year of performance, you can post your results on hedge fund websites, which will attract new investors.

Remember, if you use the huge leverage that a prop firm offers to improve your use of capital, your returns and volatility may increase significantly. I'm not sure you want that.

You can actually do all of the legal work for a reasonable cost if you use a company called Turnkey Hedge Funds. Their expertise will guide you though all of the structural and legal aspects of fund formation. The process of getting a fund up and running can be as short as three to four months. Their website is: <http://www.turnkeyhedgefunds.com/>. I hope I have answered all of your questions. Good luck. **SFO**



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